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UNCLAS SECTION 01 OF 04 JAKARTA 004514

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SUBJECT: INDONESIA - TRADE AND INVESTMENT HIGHLIGHTS -  
MARCH 2006

1. Summary: On March 2, the Government of Indonesia (GOI) announced an "Investment Climate Improvement Package" mapping out reforms to a number of laws, regulations, and procedures affecting the investment climate. The Ministry of Trade (MOT) met the first key deadline in the package by submitting a new draft investment law to Parliament on March 22. Vice President Kalla announced on March 16 that the GOI plans to establish eight new special economic zones to attract foreign investors. The Ministry of Trade said on March 2 it is considering anti-dumping measures against textile imports from China. On March 3, the Ministry of Marine Affairs and Fisheries said it would apply international standards to Indonesian shrimp exports. The ministry said it has banned seven Indonesian companies under investigation for illegal transshipment from exporting shrimp to the U.S. Indonesia's footwear sector hopes to increase market share in the European Union (EU) following EU anti-dumping measures against Chinese and Vietnamese shoes. On March 3, Microsoft Indonesia announced plans to provide affordable computers to millions of Indonesian customers. State telecommunication company PT Telkom announced it would postpone a planned increase in fixed line telephone tariffs on March 6. The Indonesian Textile Association (API) will hold a large Indonesian Textile and Apparel Fair September 21-24 in Jakarta. End Summary.

#### New Measures to Improve Investment

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2. On March 2, the GOI announced an "Investment Climate Improvement Package" containing 85 regulatory and institutional reforms it plans to take in 2006 to improve the investment climate. The package focuses on five areas: general investment policies; customs, excise and duties policies; taxation; labor; and small and medium enterprises (SMEs). Key items in the package include:

--Submitting a revised investment law to Parliament by March 2006.

--Submitting revisions to Manpower Law (No. 12/2003) to Parliament by the end of April 2006. The revised law would address business community concerns about worker severance costs, outsourcing and expatriate work permits.

--Reaching a decision on the status of three draft tax

laws now before Parliament by the end of April 2006.

--The revitalization of the "National Team for the Enhancement of Exports and Investment" (PEPI) to better coordinate investment policies and help solve high profile investment disputes "quickly, cheaply and fairly".

--The Ministry of Finance will accelerate customs processing times by June 2006 to 30 minutes for green lane shipments and three days for red lane shipments.

--A reduction of the use of the red lane to just 10 percent of shipments by December 2006.

--The Ministry of Finance will establish tax facilities for certain business sectors by the end of June 2006, and revise rules and regulations on value added taxes (VAT) to coincide with passage of a package of amended tax laws.

13. The Ministry of Trade met the first key deadline in the package by submitting a new draft investment law to Parliament on March 22. The draft law would unify Indonesia's separate laws for foreign and domestic investors and provide traditional investment protections including national treatment, the right to repatriation of profits, and a guarantee against nationalization. In conjunction with a new investment law, the GOI plans a number of other regulatory changes including a revised Government Regulation setting out "clear, simple, and transparent" criteria for the negative investment list; revisions to Government Regulation 25 on the responsibilities of local governments in the area of

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investment; and regulations reducing the number of days needed to establish a business. "A one-stop service for investors is part of the new package," Advisor to Coordinating Minister for the Economy Jannes Hutagalung said.

#### GOI to Simplify Trade Licenses

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14. As part of the investment climate improvement package, the Coordinating Ministry for the Economy announced on April 4 that the MOT had issued decrees simplifying application procedures and eliminating some bureaucratic requirements for nine separate trade licenses. The eight licenses are the:

- a) trade business license (SIUP),
- b) trade company representation license,
- c) surveyor business activity license,
- d) franchise business registration document,
- e) agency and distribution registration document,
- f) alcoholic beverages trade business license,
- g) multi-level sales business license, and
- h) warehouse registration document.

15. Under Indonesian law, all companies must obtain a trade business license (SIUP) as part of the business establishment process. In a 2005 survey, the International Finance Corporation estimated this step takes companies an average of 14 days. The new decrees seek to shorten the SIUP issuance process to five days, reduce the number of documents required from six to four, and standardize fees throughout Indonesia.

#### Indonesia to Create Special Economic Zones

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16. In a March 16 keynote address at a business seminar, Vice President Jusuf Kalla announced the GOI would create eight new Special Economic Zones (SEZs) within a year to

attract more foreign investment, in addition to the existing SEZ on Batam Island. According to press reports, the GOI is considering creating new SEZs in Bojonegara (Banten Province), West Java, Central Java, East Java, East Kalimantan, North Sumatra, South Sulawesi and Aceh's Sabang Island. Minister of Trade Mari Pangestu reportedly stated the new SEZs should be located where there is already a cluster of industries, developed infrastructure, receptive local government, and space to accommodate expansion. She added that the GOI would set up a regulatory framework for the zones before finalizing the locations. Pangestu told the press that the individual SEZs would likely focus on sectors already established in the area, such as petrochemicals in Banten (already home to several petrochemical plants); agribusiness in Sumatra; oil, gas and mining in Kalimantan; and manufacturing in Java.

#### Anti-dumping Measures Against Chinese Textiles?

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17. Minister of Trade Mari Pangestu stated on March 2 that the government would consider anti-dumping measures against textile imports from China. Her comments were in response to a safeguards petition the Indonesian Textile Association (API) submitted to the Ministry of Trade-chaired Indonesian Trade Safeguard Committee (ITSC) claiming a surge of textile imports from China had caused injury to the domestic industry. One issue the ITSC faces is that safeguard measures are only effective against legal imports, while many garments from China found in local markets enter Indonesia illegally. The ITSC is an interagency committee that includes the Ministries of Industry, Finance, Agriculture, and Forestry, the Central Statistics Agency, and the Coordinating Ministry for Economic Affairs. It implements Presidential Decree No. 84/2002 on "Domestic Industrial Safeguard Measures Resulting from a Surge in Imports".

#### Shrimp Trade Update

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18. The Ministry of Marine Affairs and Fisheries (MMAF) announced on March 3 that the GOI would adopt international standards on exports of shrimp, particularly to the European Union and the United States. Director General for Fish Breeding Made L. Nurdjana stated the ministry expects to implement a standardization and certification program for breeding, cultivation and post-harvest handling of shrimp by mid-2006. The program would meet the Code of Conduct of Responsible Fisheries (CCRF) regulated by the World Food and Agriculture Organization (FAO). The United States is the largest buyer of Indonesian shrimp. In 2005, Indonesian fish and shellfish to the U.S. reached USD 726.6 million.

19. Minister of Fisheries and Marine Affairs Freddy Numberi acknowledged on March 6 that there had been incidents of illegal transshipment of shrimp from China through Indonesia. The Minister said MMAF officials suspect at least seven shipping companies of re-exportation and re-labeling of Chinese shrimp to the United States. He refused to name the companies, stating investigations are ongoing. In the meantime, Numberi said his ministry has prohibited the seven companies from exporting shrimp to the U.S. He promised tough punishment including revocation of licenses if allegations are confirmed.

#### Indonesia Hopes to Expand EU Footwear Share

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¶10. On March 3, Ansari Buchari, Director General of Metal and Textile Machine in the Ministry of Industry expressed hope that Indonesia would increase its share of the EU footwear market after the EU slapped anti-dumping surcharges of 19.4 and 16.8 percent on shoe products from China and Vietnam respectively. The surcharges are set to last for five years effective April 2006. Buchari said he is optimistic that Indonesia can benefit from the EU action, and hoped that major companies such as Puma, Adidas and others would invest in production facilities in Indonesia. According to the Indonesian Footwear Producers Association, Indonesia exported USD 1.5 billion of footwear in 2005, an increase of 13.6 percent from USD 1.32 billion reported in 2004.

#### Microsoft to Provide Affordable Computers

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¶11. Microsoft Corporation announced on March 3 that the company is planning to provide affordable computer packages, including its own software, to millions of Indonesian customers this year through its Indonesian affiliate PT Microsoft Indonesia (PTMI). Under the program, PTMI will cooperate with local consumer finance firms to help consumers purchase computers who would normally have no access to credit. These consumers would also benefit from a 40-60 percent discount from Microsoft that would bring the package of a computer system to Rp 6-7.2 million or USD 660-700.

#### Telkom to Delay Phone Tariff Hike

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¶12. PT Telekomunikasi Indonesia (Telkom) announced on March 6 that the company would not increase fixed line telephone tariffs for an indefinite period. Telkom President Director Arwin Rasyid said he has "no heart" to increase tariffs since many consumers are still reeling from October 2005 fuel price hikes. According to Rasyid, the postponement will not affect Telkom's services.

#### Indonesia to Hold Textile and Apparel Fair in September

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¶13. The Indonesian Textile Association (API) will hold an "Indonesian Textile and Apparel Fair" September 21-24, 2006 in Jakarta, the largest gathering of its kind. The fair will feature a textile exhibition, seminars and workshops on marketing Indonesia's products, exploration of business opportunities and a venue for producers and

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buyers to come together. API expects about 400 exhibitors to participate in the event at the Jakarta International Expo center. Minister of Trade Mari Pangestu expressed optimism that Indonesia's textile and garment exports would continue to grow in 2006. Indonesia's textile and garment exports reached USD 8.6 billion in 2005, a 15.1 percent increase from 2004. Details on the textile and apparel fair are at [www.itaaf.com](http://www.itaaf.com).

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